

Government 367

Money, Markets and Economic Policy

Fall, 2013

Mondays and Wednesdays: 1:30-2:45

University Hall 1202

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COURSE DESCRIPTION: This course introduces and applies basic economic concepts and principles to fundamental issues facing the U.S. and global economies. We will explore the way markets work, the reasons they sometimes fail and the role of government policy. Topics include productivity and economic growth, taxes, health care, globalization, income distribution and financial crises, with an emphasis on market structure, social institutions and the not-always rational behavior of investors and consumers.

The course is aimed at non-economics majors seeking the economic literacy necessary to do their jobs, manage their lives, understand recent events and participate intelligently as citizens in a democracy. The aspiration of the course is to demystify economic ideas and policy choices and translate them into conversational English. There will be very little math involved. The only prerequisites are a curious mind, an aptitude for critical thinking and a willingness to attend class and do the generous amount of assigned reading.

CLASS SESSIONS: Course is organized around 14 basic questions about economics with particular relevance to today. Generally, each question will be addressed during two class sessions. The first of the two sessions will focus on a presentation and discussion of the basic economic principles and concepts that are necessary to consider the question. The readings for that session will be drawn mostly from the textbook. The second session will be focused more on a discussion of possible answers to the question using those principles and concepts. Most readings for the second session will be drawn from magazine and newspaper articles, essays, lectures and recent books.

Students will be expected to attend all classes having done the reading for the day. Students will be called on randomly to participate in the class discussion.

Students should pick up tent cards with their names on them at the beginning of class and return them at the end of class.

For each class, one student will be assigned the task of taking notes. The schedule for note-taking will be posted on Blackboard along with any charts, graphs, web addresses, and videos used or referred to during the discussion. If you cannot attend on the day of your assignment, arrange a swap and let Mr. Sommerfeld know of the change.

ELECTRONIC DEVICES: No computer will be allowed in class except by special permission (the designated note taker for each class session may also use a

computer). You are encouraged to take notes with pen and paper. All cell phones and communications devices must be shut off during class. If you are caught texting or emailing or surfing the web, you will be asked to leave the class session. Really.

JOURNAL: Students are required to regularly read at least one economics or business-oriented publication or blog and keep a journal on Blackboard about articles or posts you found particularly insightful, or difficult, or misguided—and why. The purpose is to develop familiarity and comfort with public discussion of economic topics. At least one post per week is required, beginning the week of Sept. 23. Postings should be two or three paragraphs long, with the first containing a brief description of the material you are commenting on. This is an assignment you need to do every week. Doing all the posts the last week of the semester won't cut it. (Note: Blackboard records the date of entry.)

For your journal reading, you may choose from one of the following, or get approval for another you prefer:

The Economist

Marginal Revolution (Tyler Cowen, GMU)

Economix (New York Times)

Real Time Economics (Wall Street Journal)

Ezra Klein's Wonkblog (Washington Post)

The Curious Capitalist (Time)

Derek Thompson (Atlantic)

Greg Mankiw

Tim Harford

All students must schedule a meeting with me sometime after the mid-term to review your exam, your journal and your performance in class.

COURSE EVALUATION:

There will be an in-class midterm exam and a final exam. Both will require familiarity with readings and material covered in class, along with ability to apply economic concepts and reasoning in short essay answers. There will also be a short quiz once a week at the beginning of class. The quizzes will be easy if you have done the reading but not so much if you haven't. The two worst quiz scores (including any missed quizzes) will be dropped in calculating grades.

Quizzes	20%	100 points
Class Participation	10%	50 points
Journal	10%	50 points
Midterm	25%	125 points
Final	35%	175 points

EXAM POLICY: You may bring up to 5 (one-sided) pages of typed notes, or the equivalent, to mid-term and 10 pages to the final exam. You will need to bring a blue book to midterm and final. Makeup exams will offered only by permission and must be scheduled with Mr. Sommerfeld within one week of the scheduled exam.

STUDENTS WITH DISABILITIES: If you are a student with a disability and you need academic accommodation, please see me and contact the Disability Resource Center at 703-993-2474.

ENROLLMENT: Students are responsible for verifying their enrollment in the class. Last day to add or drop classes without penalty is Tuesday, Sept. 3. Please do me the courtesy of letting me know if you drop the class after that date.

BOOKS AND COURSE MATERIALS:

There are six books we will use for this course, all available at the GMU bookstore:

Essentials of Economics, by N. Gregory Mankiw (South-Western, Sixth Edition).

This will be our textbook, which will explain the basic economic principles necessary to understand class lectures and participate in class discussions. We will not be using it all or reading it in the order presented by the author.

The Undercover Economist, by Tim Harford, (Random House, 2005, paperback).

This is a breezy, popular book on economics that deals with many of the topics covered in the course.

How Markets Fail: The Logic of Economic Calamities, by John Cassidy (Picador/Farrar, Strauss & Giroux, paperback). This recent book by the New Yorker's economics correspondent surveys the history of economic thought in an effort to help explain the recent financial crisis.

The Globalization Paradox: Democracy and the Future of the World Economy, by Dani Rodrik, (W.W. Norton). This is an easy-to-understand economic and political critique of globalization by a popular Harvard professor.

Predictably Irrational: The Hidden Forces That Shape Our Decisions, by Dan Ariely (revised and extended, Harper Perrenial, paperback). This popular book offers a fun and accessible introduction to behavioral economics by one of its best-known practitioners.

The Great Divergence: America's Growing Inequality Crisis and What We Can Do About It, by Timothy Noah (Bloomsbury Press). An introduction into the causes of the growing gap between rich and poor by a popular columnist.

In addition, there will be numerous shorter readings each week that will all be available or accessible on e-reserve at the Library (the password: keynes). You may be able to locate many, but not all of them, online. ***These readings are not optional or supplementary—they are integral to the course.***

The reading load for this class is heavier than for many GMU classes. The tradeoff (a word you will be hearing a lot in this class) is that there are no papers.

THE HONOR CODE POLICY:

1. No help may be given or received by students when taking quizzes, tests or examinations, whatever the type or wherever taken, unless the instructor specifically permits deviation from this standard.
2. All work submitted to fulfill course requirements is to be solely the product of the individual(s) whose name(s) appear on it. Except with permission of the instructor, no recourse is to be had to projects, papers, lab reports or any other written work previously prepared by another student, and except with permission of the instructor, no paper or work of any type submitted in partial fulfillment of the requirements of another course may be used a second time to satisfy a requirement of any course. No assistance is to be obtained from commercial organizations that sell or lease research help or written papers. With respect to all written work, proper footnotes and attribution are required.

CLASS SCHEDULE:

Aug. 26 (M)

Introduction and Overview: What's So Great About Economics, Anyway?

Tradeoffs, scarcity, opportunity cost, cost-benefit, sunk costs, marginal thinking

Mankiw, Essentials, Ch. 1 (this chapter only is on e-reserve)

Harford, Undercover Economist, Ch. 1 (this chapter only is on e-reserve)

Aug. 28 (W)

Why Are Some Nations Rich and Others Poor?

Productivity, exchange and specialization, comparative advantage, natural endowments, Malthusian trap, industrial revolution, investment and capital accumulation, technological progress, human capital, rule of law, role of institutions

Essentials Ch. 3

Ch. 15, pp. 307-312

Ch. 17

Wealth of Nations, Adam Smith, Ch. 1 and 3 (e-reserve)

Sept. 4 (W)

Why Nations Fail, Acemoglu/Robinson, Ch. 7 and 8 (e-reserve)

The Worldly Philosopher, Heilbroner, Ch.2 (e-reserve)

Undercover Economist, Ch. 8

Sept. 9 (M)

Why Are Markets the Best Way to Organize An Economy?

Supply and demand, reservation price, consumer and producer surplus, complements and substitutes, Pareto equilibrium, “invisible hand,” price controls, failure of communism

Essentials

Ch. 4

Ch. 6, pp. 111-121

Ch. 7

Sept. 11 (W)

Wealth of Nations, Smith, Ch. 2 (e-reserve)

How Markets Fail, Ch. 2, 3, 4

Undercover Economist, Ch. 3 and 10

Leonard Read, “I Pencil “(e-reserve or online)

Sept. 16 (M)

How Do Markets Fail? (Part 1- Micro)

Microeconomics, externalities, public and common goods, rival and excludable goods, free riders, tragedy of the commons, Coase theorem, prisoner’s dilemma, positional arms races, game theory, Nash equilibrium

Essentials

Ch.10

Undercover Economist, Ch. 4

How Markets Fail, Ch. 9

Sept. 18 (W)

Essentials Ch. 11

How Markets Fail Ch. 10, 11, 12

Sept. 23 (M)

How Do Markets Fail? (Part 2- Macro)

Macroeconomics, inflation, deflation, real wages and interest rates, monetary policy, fiscal policy, recessions and depressions, unemployment, aggregate supply/demand, sticky wages and prices, paradox of thrift, liquidity trap, self-reinforcing cycles, Keynes v. Hayek

Essentials Ch. 16

Ch. 21, pp. 435-452

Ch. 22, pp. 472-479

R.A. Radford, "Economic Organization of a POW Camp," (e-reserve or online)

Sept. 25 (W)

Essentials Ch. 20, pp. 409-422

Ch. 23, pp. 487-490

Sept. 30 (M)

How Markets Fail, Ch. 13

R. Posner, How I Became A Keynesian, New Republic 2009 (e-reserve or online)

J. M. Keynes et al and F.A. von Hayek et al, Letters to the Times, 1932 (e-reserve or online)

Oct. 2 (W)

Do Big Companies or Small Ones Drive Economic Growth?

Perfect and imperfect competition, fixed and variable costs, economies and diseconomies of scale, average cost and revenue v. marginal, oligopoly, monopoly, elasticity of demand, natural monopoly, network effects, outsourcing, entrepreneurship, creative destruction

Essentials

Ch. 12

Ch. 13, pp. 255-263

Oct. 7 (M)

Essentials

Ch. 14, pp. 275-289, 294-300

Ch. 5, pp. 89-91

Davies, "Sizing Up Job Creation," Federal Reserve Bank of Minneapolis, 2010 (e-reserve or online)

Oct. 9 (W)

Midterm Exam – Bring Blue Book

Oct. 15 (Tues)

Do Taxes Reduce Growth and Employment

Income, sales, corporate, property and payroll taxes; marginal v effective tax rates; tax progressivity, incidence, neutrality, cyclicalities, efficiency; capital gains; tax deductions and expenditures; income statement

Essentials Ch. 6, pp 121-128

Joel Slemrod and Jon Bakija, Taxing Ourselves, Ch. 4 (e-reserve)

Oct. 16 (W) Jeff Madrick, "Do Lower Taxes Mean Faster Economic Growth?" New York Times, Oct. 2002 (e-reserve or online)

Alan Reynolds, "Lower Tax Rates Mean Faster Economic Growth," Cato Institute, 2003 (e-reserve or online)

Thomas Hungerford, Congressional Research Service, "Taxes and the Economy, An Economic Analysis of the Top Tax Rates Since, 1945," Sept. 14, 2012 (e-reserve or online)

Oct. 21 (M) **Why Have Incomes Become So Unequal?**

Labor markets, income inequality, class mobility, impacts of immigration, trade, technology, norms of behavior, unions and minimum wage; superstar labor markets, education premium; efficiency wage

Essentials Ch. 20, pp. 422-429

The Great Divergence, Ch. 1-3, 5-6

Oct. 23 (W) The Great Divergence, Ch. 7-10

Joseph Stiglitz, The Price of Inequality, Ch. XX, pp. 83-117 (e-reserve)

Oct. 28 (M) **Is Globalization Good for America?**

Trade balance, capital flows, exchange rates, competitiveness, savings rate, immigration, tariffs, industrial policy, clusters and knowledge spillovers, offshoring

Essentials Ch. 9

Undercover Economist, Ch. 9

Oct. 30 (W)

Globalization Paradox, Ch. 1,3,7-9

A. Blinder, "Fear of Offshoring," Foreign Affairs, 2005 (e-reserve or online)

Nov. 4 (M)

Why Do Health Care Costs Rise Faster Than Everything Else

Insurance, moral hazard, agent-principal problems, asymmetric information, risk pool, adverse selection, community rating, managed care and capitation, fee-for-service, malpractice and defensive medicine, outcomes research

Undercover Economist, Ch. 5

David Leonhardt in the New York Times (e-reserve or online)

"Forget Who Pays", July 26, 2009

"A System Breeding More Waste," Sept. 23, 2009

"Dr. James Will Make It Better," Nov. 8, 2009

Nov. 6 (W)

Atul Gwande articles in the New Yorker (e-reserve or online)

"Cost Connundrum," June 1, 2009

"Testing, Testing," December 14, 2009

Nov. 11 (M)

Why Do We Keep Having Financial Crises?

Financial intermediation, savings, investment, banking, stock and bond markets, random walk, leverage, deposit insurance, bank regulation, liquidity crisis v. credit crisis, securitization, shadow banking system, herd behavior, regulatory capture

Essentials Ch. 18, pp. 371-377

Ch. 19

Undercover Economist, Ch. 6

Nov. 13 (W)

How Markets Fail, Ch. 14, 16, 19-22

Nov. 18 (M)

Are People Rational In Their Economic Behavior?

Behavioral economics, endowment effect, anchoring, status quo bias, loss aversion, mental accounting, framing, fairness, bounded rationality, ultimatum game

Predictably Irrational, Ch. 1, 2, 3, 4

Nov. 20 (W)

Predictably Irrational, Ch. 8, 10, 12, 14

Richard B. McKenzie, "Predictably Irrational or Predictably Rational," Concise Encyclopedia of Economics (e-reserve or online)

Nov. 25 (M) **Why Doesn't the Airplane Passenger Sitting Next to You Pay the Same Fare?**

Price discrimination, rule of one price, price arbitrage, bundling, tying

Essentials Ch. 14, pp. 290-294

Undercover Economist, Ch. 2

Dec. 2 (M) **If Economics is a Science, Why Do Economists Disagree About So Much?**

Neo-classical economics, Keynesian and New Keynesian economics, rational expectation, public choice, economic modeling, complexity, non-linearity, mathematization of economics

Essentials Ch. 2

Paul Krugman, "How Did Economists Get It So Wrong," New York Times Magazine, Sept. 6, 2009 (e-reserve or online)

John Cochran, "How Did Paul Krugman Get It So Wrong," Sept. 11, 2009 (e-reserve or online)

Frederich von Hayek, Nobel Prize Lecture, 1974 (e-reserve or online)

Raghuram Rajan, "The Paranoid Style in Economics," Project Syndicate, Aug. 2013 (e-reserve or online)

Dec. 4 (W) **Review for Final Exam**

Dec. 11 (W) **Final Exam (1:30 – 4:15 PM) – Bring Blue Book**